

Members:

Rep. Thomas Kromkowski, Chair
Rep. Dan Stevenson
Rep. Lawrence Buell
Rep. Richard Mangus
Sen. Joseph Harrison
Sen. Thomas Weatherwax
Sen. Joseph O'Day
Sen. Allie Craycraft



PENSION MANAGEMENT OVERSIGHT COMMISSION

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Authority: IC 2-5-12-1

MEETING MINUTES

Meeting Date: October 7, 1998
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St., 156 B
Meeting City: Indianapolis, Indiana
Meeting Number: 3

Members Present: Rep. Thomas Kromkowski, Chair; Rep. Dan Stevenson; Rep. Lawrence Buell; Rep. Richard Mangus; Sen. Joseph O'Day; Sen. Allie Craycraft; Steve Meno.

Members Absent: Sen. Joseph Harrison; Sen. Thomas Weatherwax; William Daniels; Connie Lux; William Gettings, Jr.

The Chair, Representative Thomas Kromkowski, called the meeting to order at 10:15 a.m. The first order of business was the approval of the minutes from the September 9, 1998, meeting. The minutes were approved by consent.

1. Indiana State Police Issues

Representative Kromkowski recognized Mr. Steve Buschmann, representing the Indiana State Police Alliance. Mr. Buschmann presented two proposed drafts to the Commission. PD 3358 provides a cost of living adjustment (COLA) for retired members of the Indiana State Police 1987 Plan and it also makes changes to the supplemental benefit of the Pre-1987 Plan.¹ The Commission's staff distributed a fiscal note describing the potential fiscal impact of the proposed legislation to the Commission members.² Mr. Buschmann also distributed a memorandum that provided an overview of the Indiana State Police Pension Plan.³

¹This document is on file in the Legislative Information Center, Room 230 of the State House, Indianapolis, Indiana, 46204. The telephone number of the Legislative Information Center is (317) 232-9856.

²This document is on file in the Legislative Information Center (see footnote 1).

³This document is on file in the Legislative Information Center (see footnote 1).

Mr. Buschmann next discussed PD 3402.⁴ This proposed draft provides that the State Police Department must pay the premium for health insurance coverage for each retired police employee and each retired civilian employee of the State Police Department who is participating in the Department's insurance plan. The draft establishes the State Police Department Retiree Health Insurance Fund to pay for the insurance coverage for retired employees. It requires each active member of State Police to pay a percentage of the employee's salary into the Fund. It also requires each retired employee participating in the insurance plan to contribute each month an amount equal to 1% of the retired employee's monthly pension benefit.

As part of the discussion on PD 3402, Mr. Buschmann distributed a study conducted by Milliman & Robertson, Inc., Actuaries and Consultants.⁵ In this study, the authors state that the present value net cost of providing retiree health insurance is \$26.02 million if the full benefits will be available immediately. The report also notes that, assuming no initial surplus and no additional funding, the plan will maintain a positive surplus during each of its first seven years. A level annual payment of \$1.77 million would be required for all years after the first seven years to fund the ultimate deficit generated by the proposed program. The report also states that the fund would maintain a positive balance for all years with the additional funding. In responding to Commission questions, Mr. Buschmann said that sources of funding for this proposal are being considered.

2. Public Employees Retirement Fund (PERF) /Teachers' Retirement Fund Issues (TRF)

Representative Kromkowski next recognized Ms. Mary Beth Braitman of Ice Miller Donadio & Ryan, outside counsel for PERF and TRF. Ms. Braitman presented PD 3438.⁶ This proposed draft makes numerous changes to PERF and TRF, along with certain other changes to the Judges' Retirement System. In addition, Ms. Braitman distributed a section-by-section analysis of PD 3438.⁷ In addition, the Commission's staff distributed a fiscal note on PD 3438.⁸ Commission discussion on PD 3438 centered around Section 8 of the proposed draft. This section dealt with allowable annual earnings before a retired fund member is re-enrolled as an active member. The dollar limit is currently tied to a Social Security index that is scheduled to rise significantly over the next few years. After much discussion, Representative Kromkowski recognized Senator Allie Craycraft who made a motion, which was seconded by Representative Dan Stevenson, to remove Section 8 of the bill. This section was deleted by consent. Senator Allie Craycraft then moved to accept PD3438 as amended. Senator Joseph O'Day seconded the motion. Representative Kromkowski called for a vote on PD 3438. A roll call vote was taken and PD 3438 passed 7-0.

3. Judges Retirement System

Representative Kromkowski then called upon Mr. Tom Fruechtenicht, representing the Indiana Judges Association. Mr. Fruechtenicht discussed PD 3338.⁹ PD 3338 provides A) that a full-time magistrate is a member of the Judges' Retirement System; B) that a participant in the 1985 Judges' Retirement System is eligible for normal retirement if the participant is at least 55 years of age and the participant's age and years of service is at least 86; C) that a participant in the Judges' Retirement System may purchase, at full actuarial cost, service credit for prior service in positions covered by other Indiana public pension funds; and 4) that the monthly benefits payable to participants under the 1985 Judges' Retirement System shall be increased by the same percentages

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and under the same conditions as monthly benefits are increased for members of PERF. The Commission's staff provided a fiscal impact statement for PD 3338.¹⁰ Representative Lawrence Buell moved that the Commission recommend PD 3338 to the General Assembly. The motion was seconded by Mr. Steve Meno. A roll call vote was taken, and PD 3338 passed 7-0.

4. Discussion on Unfunded Liabilities

Representative Kromkowski recognized Mr. Tom Miller, representing the Indiana Professional Firefighters. Mr. Miller told the Commission that the unfunded liabilities of the old police and firefighters funds total about \$3.5 billion. Mr. Miller then asked Ms. Mary Beth Braitman to further discuss the unfunded liabilities of the police and fire funds. Ms. Braitman provided the Commission with a report entitled "Report Concerning Funding of Public Safety Pensions"¹¹. The report details the Plan Structure for the old plan police and firefighters' funds, along with the creation of the 1977 Police Officers and Firefighters Plan. In addition, the report discusses the additional relief that was brought about by the passage of P.L.22 -1998. P.L.22 transferred about \$400 million in unfunded liabilities from the old plans, which have about \$3.5 billion in unfunded liabilities, to the 1977 Plan, which is well-funded. Ms. Braitman then asked Mr. Doug Todd of McCready & Keene, Inc., actuaries for PERF and the police and fire funds, to discuss the unfunded liabilities of the Police and Fire Funds. Mr. Todd provided the Commission a report entitled "Indiana Municipal Police and Fire Pension Plans-Actuarial Fiscal Impact Analysis."¹² Among other things, Mr. Todd told the Commission that an additional \$100 million in 1999 would allow the "M" fund portion of the Pension Relief Fund to last about 2.5 years longer than without the additional funds. Mr. Todd said that if \$20 million per year were contributed to the old police and firefighter funds, along with the \$100 million, the "M" fund would last until about 2016.

Representative Kromkowski recognized Mr. Dennis Maloy of the Indiana Association of Cities and Towns. Mr. Maloy thanked the Indiana General Assembly for appropriating funds to address the issue of unfunded liabilities for the police and firefighter funds. Mr. Maloy said that he would encourage consideration of some of the options presented today and that he was ready to help.

The Chair next recognized Mr. Leo Blackwell, representing the Indiana Fraternal Order of Police. Mr. Blackwell reiterated the need for relief for the old police and firefighter plans. Mr. Blackwell also offered his assistance.

Representative Tom Kromkowski recognized Dr. Mary Pettersen, Director of the TRF. Dr. Pettersen then asked Ms. Denise Jones of Gabriel Roeder Smith & Co., actuaries for the TRF to comment on the unfunded liabilities of TRF. Ms. Jones told the Commission that the unfunded liabilities for TRF totaled about \$7.3 billion as of June 30, 1997. Ms. Jones distributed a memo that showed the impact of additional appropriations on the unfunded liabilities of TRF.¹³ Ms. Jones commented that every additional dollar helps to reduce the unfunded liability. She said that additional dollars committed to reduce the unfunded liability of TRF could save \$28 billion over the life of the fund. Dr. Pettersen then distributed a fact sheet on the Pension Stabilization Fund.¹⁴ In response to a Commission question, Ms. Jones said that every member of the new TRF plan is to be fully funded, based on the employer contribution rate by the schools of 8.5%. Senator Allie Craycraft stated that the Commission should recommend appropriating additional state money for the unfunded liabilities of TRF and the police and firefighter funds. Representative Kromkowski suggested that perhaps it

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could be included in the Commission's Final Report.

Mr. Steve Moberly of the Indiana Retired Teachers' Association was recognized by Representative Kromkowski. Mr. Moberly said that on behalf of retired teachers, he is grateful to the Indiana General Assembly, prior governors, and the present governor for past appropriations that were designed to reduce TRF's unfunded liability. Mr. Moberly then noted that during the past session the General Assembly paid for the TRF COLA without adding to the unfunded liability. He said that this was a good idea.

Representative Kromkowski said that those parties interested in the earnings test deletion in PD 3438 should get together and work out the differences. Representative Kromkowski said that the Commission's next meeting would be on October 21, 1998, at 10:00 a.m. He asked Dr. Pettersen about the military service credit survey for TRF retirees. Dr. Pettersen said that she hopes to have some preliminary information at the next meeting. Representative Kromkowski asked Mark Webb, Director of PERF, about the lawsuit filed by a former legislator regarding the Legislator's Retirement System. Mr. Webb said that the Trial Court granted a summary judgement in favor of the Legislator's Retirement System.

Representative Kromkowski adjourned the meeting at 11:55 a.m.